Practice Problems

CATEGORY: COST APPROACH

TOPIC: HIGHEST AND BEST USE OF SITE

Problem – What is the highest and best use of the site as vacant ?

PROPOSED USE	CURRENT COST	NOI	R_B	R_L
RETAIL	$1,000,000	$98,000	8.00%	3.00%
GENERAL OFFICE	$1,200,000	$105,000	7.50%	2.25%
MEDICAL OFFICE	$1,500,000	$138,000	8.25%	3.50%
MULTIPLE-FAMILY	$900,000	$72,000	7.25%	3.00%

Problem Solution – NEXT PAGE

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Problem Solution

PROPOSED USE	CURRENT COST	x	R_B	=	I_B
RETAIL	$1,000,000	x	8.00%	=	$80,000
GENERAL OFFICE	$1,200,000	x	7.50%	=	$90,000
MEDICAL OFFICE	$1,500,000	x	8.25%	=	$123,750
MULTIPLE-FAMILY	$900,000	x	7.25%	=	$65,250

PROPOSED USE	NOI	-	I_B	=	I_L
RETAIL	$98,000	-	$80,000	=	$18,000
GENERAL OFFICE	$105,000	-	$90,000	=	$15,000
MEDICAL OFFICE	$138,000	-	$123,750	=	$14,250
MULTIPLE-FAMILY	$72,000	-	$65,250	=	$6,750

PROPOSED USE	I_L	÷	R_L	=	V_L
RETAIL	$18,000	-	3.00%	=	$600,000
GENERAL OFFICE	$15,000	-	2.25%	=	$666,667
MEDICAL OFFICE	$14,250	-	3.50%	=	$407,143
MULTIPLE-FAMILY	$6,750	-	3.00%	=	$225,000